HOUSING MARKET OUTLOOK
Charlottetown CA

CANADA MORTGAGE AND HOUSING CORPORATION

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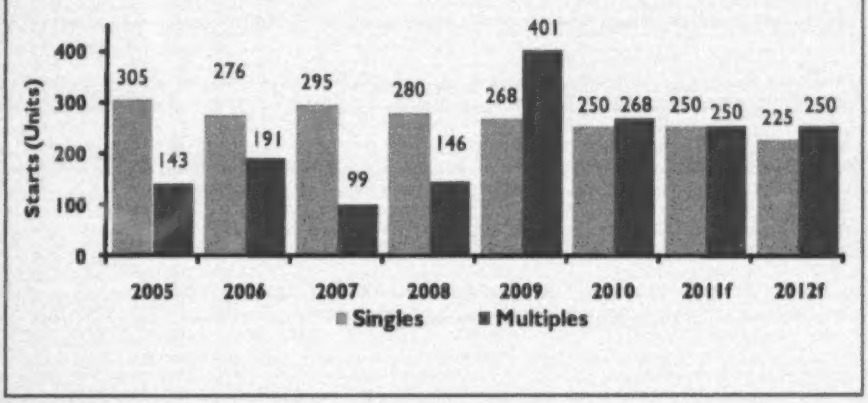
Housing Demand to Remain Stable

Economic growth in Prince Edward Island is expected to be subdued over the next two years as a result of reduced spending by government. Starting in 2008, the provincial government embarked on a $510 million five-year capital stimulus plan aimed at rebuilding roads, schools and hospitals. Over the past three years this spending has played a major role in economic growth on the Island. As these various programs begin to wind down, it is expected that jobs in the construction sector will trend lower as much of the stimulus effort was targeted at infrastructure.

In 2010, employment in the Capital region fell just short of the record level set in 2009, with nearly 34,000

Figure 1

Multiple Construction to Slow Over the Forecast Period



Source: CMHC

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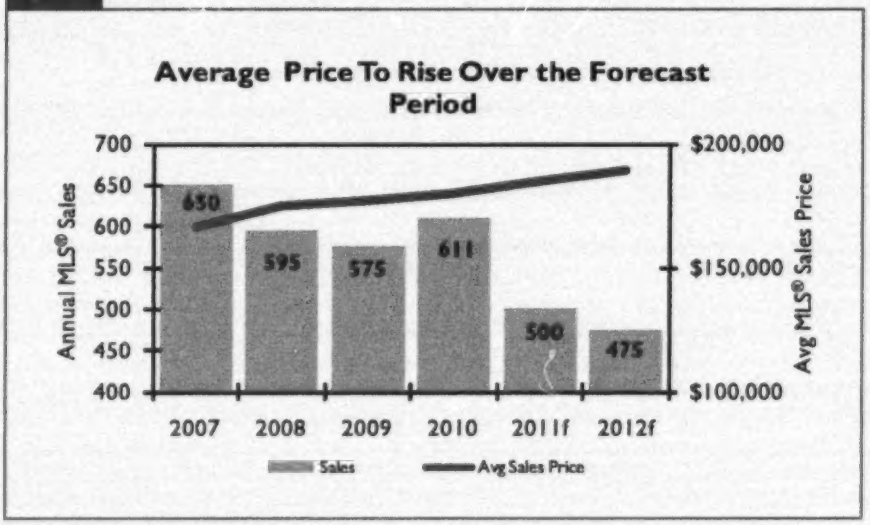
people employed. A 1.7 per cent increase in employment in the first quarter of 2011 resulted in the highest level on record for that time of year. All of the growth in the first quarter was full-time, which is more likely to generate increased demand for housing, than part-time employment. The forecast for employment over the next two years calls for gains of less than one per cent in each year.

The unemployment rate reached 8.8 per cent in 2009, before declining a full percentage point to 7.8 per cent in 2010. During the first quarter of 2011, labour force growth outpaced increases in employment, resulting in the unemployment rate returning to 8.8 per cent. It is expected that the trend of higher unemployment will continue throughout the year, due to limited job growth.

Migration to the Capital region has been a positive factor for housing over the past four years and expectations point to another year of positive net-migration in 2011. Starting in 2006 the pattern of migration began to change as the province's international immigration initiative began attracting people. Before 2006, the Charlottetown area attracted over 70 per cent of new residents from elsewhere in the province, due to the greater employment prospects. However, since 2006 there has been a steady and increasing inflow of people from international locations, culminating in a record level of almost 1,800 people in 2010. Results for 2011 are expected to be similar to the level of a year ago. This will primarily benefit the capital region as the majority of people are settling in this area. This trend will continue to provide support to the local housing market, and specifically the rental market, in the coming years assuming an extension of provincial programs.

Figure 2



Source: PEI Real Estate Board, CMHC Forecast
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While the area is able to draw international immigration, there is still a net loss of people to the other areas of Canada. The draw of the West is neither new nor unexpected in the Maritime Provinces, as residents have been moving westward in search of employment for generations. While employment opportunities in the West decreased during the economic downturn and people returned, this trend has once again reversed with the resurgence in the price of oil. As such, it is expected that out-migration, especially among the 18-24 year old age category, will increase over the forecast period as people are attracted westward by greater employment opportunities and higher wages.

Mortgage Rates

On April 12th, the Bank of Canada announced that it was leaving the Target for the Overnight Rate unchanged at 1.0 per cent. The last increase in the overnight rate occurred on September 8, 2010 when the Bank of Canada raised it by 25 basis points. The Bank of Canada is expected to resume raising the overnight rate in the fourth quarter of 2011. Mortgage rates, particularly short term mortgage rates and variable mortgage rates, are expected to remain at historically low levels.

According to CMHC's base case scenario, posted mortgage rates will remain relatively flat in 2011 before increasing moderately in 2012. For 2011, the one-year posted mortgage rate is assumed to be in the 3.1 to 3.5 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.1 to 5.6 per cent range. For 2012, the one-year posted mortgage rate is assumed to be in the 3.4 to 4.3 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.2 to 6.3 per cent range.

Rates could, however, increase at a faster pace if the economy ends up recovering more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic recovery is more modest in nature.

MLS® Sales to Remain Stable

The ten year annual average of residential MLS® sales in the Charlottetown area is 571 units. Over the past ten years annual totals have been remarkably close to that figure. In spite of the fact that during this period housing markets across the country have posted strong increases in sales, unit sales in the Capital region have stayed within a fairly tight range.

Demand for resale homes is expected to decline slightly over the forecast period (2011-2012) as employment and household growth are expected to be muted. MLS® sales are expected to reach 500 units this year and decline a further 25 units in 2012.

The average sales price will increase again this year and next, though at a much smaller increment than seen in recent years. One of the reasons for this is reduced demand. Another reason is the continued popularity of houses in the newer subdivisions, which are priced above the market average. The average sale price is expected to come in at $185,000 this year, and $189,000 in 2012.

In spite of the fact that higher priced sub-markets tend to drive up the average price, almost 70 per cent of MLS® sales in the Charlottetown CA are under $200,000. Sales of existing homes which are over $250,000 make up less than 16 per cent of total sales. While rising home prices can create challenges for buyers, it should be noted that 39 per cent of sales in 2010 were under $150,000. This indicates that a significant portion of the market is reasonably priced even for first-time home buyers.

Apartment Construction to Decline

Charlottetown's housing market will slow over the next two years, due to fewer apartment starts. The strong level of construction recorded during the past two years was the result of strong apartment starts throughout the region. The combination of near record low interest rates and vacancy rates in addition to strong in-migration and employment was enough to persuade local developers to build new rental units. However, it now appears that builders may have led demand as the vacancy rate is expected to trend upwards in 2011. Other factors at work in the local market, such as increasing unemployment, will likely cause developers to take a wait and see approach before starting new projects. This will result in fewer apartment style rental starts in both 2011 and 2012.

Total new home construction in the Charlottetown CA will decline by 3.5 per cent this year as rental unit starts come down from unusually high levels in both 2009 and 2010. The multiples forecast for 2011 is for a second consecutive decline, resulting in 250 multiple units, compared to 268 units in 2010. Over the forecast period, multiple starts will continue to decline from the 401 units started in 2009, which was more than double the ten year average and in excess of current demand.

Single-detached starts have been very stable since 2006, ranging from 250 to 295 units. Expectations for the next two years point toward a continuation of that pattern, with 250 units this year, and a further 225 units in 2012. The trend toward larger, more elaborate homes has pushed average new home prices up significantly, but this is mostly driven by specific sub-markets. The fact remains that about 55 per cent of new homes in 2010 fell in the $150,000 to $250,000 price range. As demand stabilizes and the trend towards higher-priced homes slows, average prices will climb at a slower pace than seen in recent years.

Vacancy Rates on the Rise

Vacancy rates declined last year as fewer new units were added to the local market and in-migration remained strong. It is expected that this trend will reverse in 2011, as the large number of new rental units started in 2009 and 2010 will now be available for rent in the local market. Even if in-migration remains at 2010 levels it will not provide enough demand to offset the increase in supply this year. As a result, expect the vacancy rate to reach 4.0 per cent this year before declining slightly to 3.5 per cent in 2012.

Average rents will increase as a result of the two per cent allowable rent increase approved by the Island Regulatory and Appeals Commission for 2011, but will not reach the full amount due to the increased competition among landlords. Due to the large number of new rental units coming to market, landlords of both new and existing buildings will be attempting to attract the same limited number of tenants. Two bedroom average rents are expected to be $740 this year and $755 in 2012.

Forecast Summary
Charlottetown CA
Spring 2011

	2008	2009	2010	2011f	% chg	2012f	% chg
Resale Market							
MLS® Sales	595	531	611	500	-18.2	475	-5.0
MLS® New Listings	975	786	875	850	-2.9	800	-5.9
MLS® Average Price ($)	175,231	177,237	179,813	185,000	2.9	189,000	2.2
New Home Market							
Starts:							
Single-Detached	280	268	250	250	0.0	225	-10.0
Multiples	146	401	268	250	-6.7	250	0.0
Starts - Total	426	669	518	500	-3.5	475	-5.0
Average Price ($):							
Single-Detached	207,361	242,674	235,703	250,000	6.1	255,000	2.0
Median Price ($):							
Single-Detached	200,000	210,000	220,000	226,600	3.0	233,409	3.0
New Housing Price Index (% chg.)	1.4	0.9	-1.6	0.8	-	0.9	-
Rental Market							
October Vacancy Rate (%)	2.3	3.4	2.3	4.0	1.7	3.5	-0.5
Two-bedroom Average Rent (October) ($)	672	701	731	740	-	755	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.70	4.02	3.49	3.23	-	3.76	-
Mortgage Rate (5 year) (%)	7.06	5.63	5.61	5.45	-	5.94	-
Annual Employment Level (,000)	32,925	32,525	33,900	33,250	-1.9	33,583	1.0
Employment Growth (%)	0.0	-1.2	4.2	2.2	-	1.0	-
Unemployment Rate (%)	7.6	8.6	7.9	7.4	-	7.6	-
Net Migration (P.E.I.)	1,248	1,105	1,900	1,525	-19.7	1,400	-8.2

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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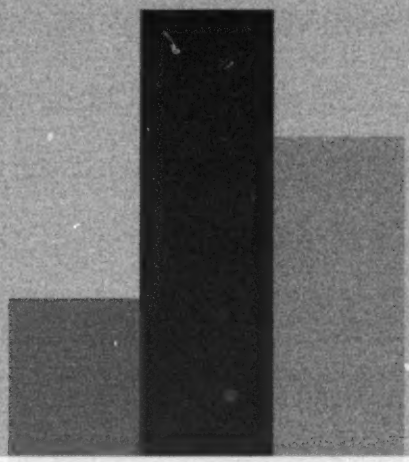

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